

Q4



Q4 Table of contents

| | |
|----|--|
| 04 | Director's report |
| 13 | Statement of comprehensive income |
| 14 | Balance sheet |
| 15 | Statement of changes in equity |
| 16 | Cash flow statement |
| 17 | Selected notes |

In short

Highlights

The power situation in Norway was good throughout the fourth quarter of 2015 and reservoir water levels were above the median at the end of 2015. Operations were satisfactory and the period was characterised by high project activity.

The Statnett Group's underlying profit after tax amounted to NOK 276 million in the fourth quarter of 2015 (NOK 224 million in the corresponding period in 2014). In 2015 the underlying profit amounted to NOK 1 427 million (NOK 1 284 million). The increase was due to increased permitted revenue mainly due to a higher asset base. The increase is somewhat offset by lower interest rates, as well as lower wage and staff costs due to a one-off effect as the Group has changed from a defined-benefit pension plan to a defined-contribution pension plan.

The underlying result is based on the regulated permitted revenue, whereas the recorded result will depend on stipulated tariffs and congestion revenues. The difference, referred to as higher or lower revenue, will level out over time through adjustment of tariffs, ensuring that Statnett's recorded revenue over time corresponds with the regulated permitted revenue.

After tax, the recorded net profit for the Group amounted to NOK 158 million in the fourth quarter of 2015 (NOK 106 million), and NOK 1 103 million in 2015 (NOK 829 million). In 2015, Statnett's higher revenue balance was reduced by NOK 444 million, including interest.

Important events

- The 2015 Grid Development Plan was presented on 1 October. The plan comprises grid projects totalling NOK 40-55 billion over the next five years. The 2015 Power System Assessment, which is an extended version of the Grid Development Plan, has been updated and submitted to the Norwegian Water Resources and Energy Directorate (NVE).
- In November, Statnett's Board of Directors made an investment decision for the Snilldal-Surna subsection, which is part of the Namsos-Åfjord-Surna project. The project facilitates wind power plans in Central Norway.
- More than 90 per cent of the Ørskog – Sogndal project has been completed. The entire section from Ørskog to Ålfoten has now been energised at 420 kV. In December, the District Court gave Statnett permission to start constructing the remaining 2.5 km power line section and mobilisation started January 2016. Consequently, the project is likely to be completed by the end of 2016 as scheduled.
- On 29 October, Statnett put four new cables into operation across Tjeldsundet.
- Statnett has entered into an agreement with Svenska Kraftnät (SvK) regarding collaboration on the new Regulation and Market System LARM, a joint IT system for balancing the Nordic power system. The cooperation enables potential savings for consumers, as the two companies will split the costs of developing and managing the system.
- In December, the Nordic transmission system operators Statnett, Fingrid, Svenska Kraftnät and Energinet.dk decided to establish a Coordinated Balancing Area (CoBA). The introduction of CoBA is part of ensuring compliance with the new European regulations.
- As of 1 October, the Elhub project is organised as a separate wholly-owned subsidiary of the Statnett Group.
- From the 2016 accounting year, Statnett will change to external financial reporting twice a year. The decision was made based on an assessment of the nature of the enterprise, which changes very little from one quarter to the next, and that the need for financial information will be satisfactorily maintained. The change is part of Statnett's efficiency improvement programme.

Director's report

Safe and efficient operations

The power situation was good throughout the fourth quarter of 2015. Temperatures and precipitation were above normal in the fourth quarter. In December, the average monthly temperature for the whole country was 4.4 °C higher than normal, whereas the average monthly temperature for the whole country was 165 per cent of normal levels. Snow reservoir levels were about normal at the end of the year.

At the beginning of the fourth quarter, reservoir water levels were 92.5 per cent, 6.4 percentage points above the median (from the 1990-2014 measuring period). At the end of the quarter, reservoir water levels were about 82.5 per cent, 12.9 percentage points above the median.

The hydrological balance improved throughout the fourth quarter, and showed a surplus of approximately 12 TWh at the end of 2015.

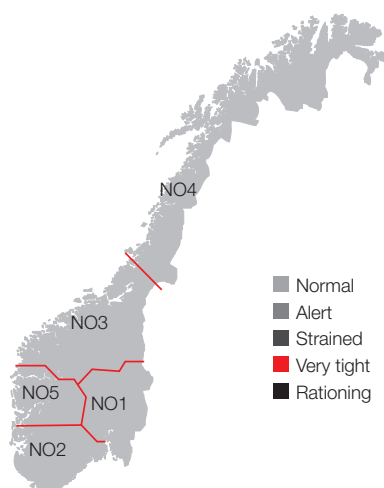
Total Norwegian power generation and consumption was 39 TWh and 35 TWh, respectively, in the fourth quarter of 2015. This resulted in net exports of approximately 4 TWh, equal to the same period in 2014. Power generation in Norway in 2015 was 143 TWh, whereas power consumption for the year was 128 TWh.

On Monday, 18 November, implicit loss handling was introduced for the NorNed cable. This means that power trading will not take place on the interconnector when congestion revenues are lower than loss costs.

Major faults and operational disruptions in the fourth quarter of 2015 were:

- Fault in Smestad substation on 18 November in connection with maintenance work. The fault resulted in outages of all 300 kV outlets and 485 MW supply interruptions for consumers in Bærum and Oslo West; a total outage of 485 MW. Most of the consumption could quickly be restored by switching to the subsidiary grid.

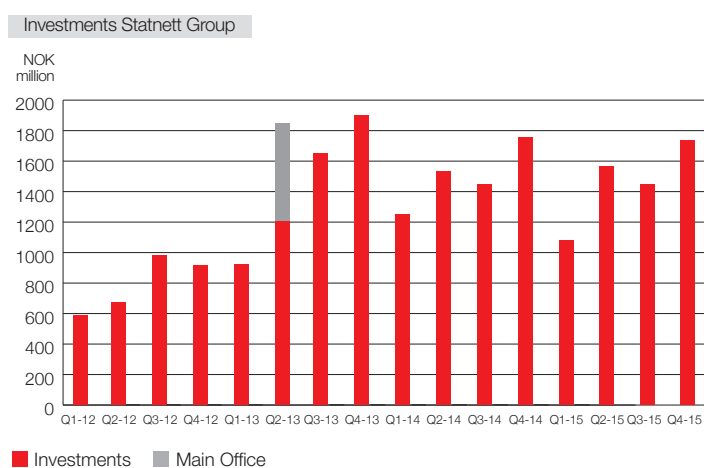
- On 1 December, parts of the Stavanger area were without power supply due to outage of Lyse T2, approx. 300 MW. The area had only one source of power supply due to modification work on the Feda-Åna-Sira power line. Supply was quickly restored after reconnections in the grid and the work on Feda-Åna-Sira was interrupted.
- On 6 December, there was an outage in the Nedre Røssåga-Ajaure power line due to a breakdown of a pylon. The outage resulted in reduced export capacity from NO4 until the line was reconnected on 14 December.



Investments

Statnett is planning and implementing major development projects. The 2015 Grid Development Plan was presented on 1 October. The plan describes development trends and anticipated investments in the main grid.

Statnett invested a total of NOK 5 820 million in 2015, compared with NOK 6 037 million in 2014. Investments include commissioned projects, projects under construction and ICT projects as well as other investments.



The main projects are listed in the table on the next page.

Overview of major investment projects

See www.statnett.no for more information about the projects.

| Project | Location | Expected investments |
|---|--------------------------------------|--------------------------------|
| Completed projects | | |
| Lakselv reinvestment station | Finnmark | |
| Tjeldsundet reinvestment station | Norland | |
| Ålfoten - Ørsta (part of Ørskog - Sogndal) | Møre og Romsdal | |
| Under implementation | | |
| Western Corridor, voltage upgrade ¹⁾ | Vest-Agder/Rogaland | MNOK 7 500 - 8 500 |
| Ørskog - Sogndal, new 420 kV power line | Møre og Romsdal/ Sogn og Fjordane | MNOK 4 600 - 5 600 |
| Ofoten - Balsfjord, new 420 kV power line | Nordland/Troms | MNOK 3 200 - 3 700 |
| Station investments (transformer capacity Eastern Norway, reactors for power reduction) | | MNOK 1 400 - 1 600 |
| Indre Oslofjord, reinvestments interconnectors | Akershus/Buskerud | MNOK 1 050 - 1 200 |
| Subsection Nedre Røssåga - Namsos | Nordland/Trøndelag | MNOK 800 - 1 000 |
| Subsection Klæbu - Namsos | Trøndelag | MNOK 700 - 800 |
| Interconnectors, under implementation | | |
| Cable to England (NSL) | | MEUR 750 - 1 000 ²⁾ |
| Cable to Germany (NordLink) | | MEUR 750 - 1 000 ²⁾ |
| Final licence granted | | |
| Balsfjord-Skaidi (-Hammerfest), new 420 kV power line | Troms/Finnmark | MNOK 4 000 - 6 000 |
| Station investments (Vemorktoppen, Mauranger, Kobbelv and other) | | MNOK 1 850 - 2 600 |
| Namsos - Åfjord, new 420 kV power line | Trøndelag | MNOK 1 800 - 2 400 |
| Snilldal - Surna, new 420 kV power line | Trøndelag/ Møre og Romsdal | MNOK 1 600 - 2 300 |
| Planned investments, licences pending or appealed | | |
| Nettplan Stor-Oslo, phase 1 | Østlandet | MNOK 4 000 - 6 000 |
| Lyse - Stølaheia | Rogaland | MNOK 2 500 - 3 500 |
| Station investments (Smestad, transformers Western Norway and other) | | MNOK 1 300 - 2 000 |
| Voltage upgrade Aurland - Sogndal | Sogn og Fjordane | MNOK 500 - 900 |
| ICT projects | | |
| Renewal of Statnett's central operations system | | MNOK 500 - 600 |
| Elhub | | MNOK 400 - 600 |

¹⁾ Parts of the project are under planning and going through licensing procedure

²⁾ Statnett share. Exposure mainly in Euro which corresponds to a span of 7-9 billion NOK per project. Agreements with partners in Germany and England will be in Euro.

The amounts in the table show the anticipated range including all project costs. Projects under implementation are shown in current rates, other projects in 2015 rates.

Important project events in the fourth quarter of 2015

- *New cables Tjeldsundet:* The new cable facility across Tjeldsundet in Ofoten was commissioned in October. The cable facility is 2.4 km long and is the first in Statnett's history where the cables terminate in masts and not coupling housing.
- *Western Corridor:*
 - o Substation and power line package 1: A contract has been awarded for 14 transformers. The first new tower was erected on 27 October.
 - o Substation and power line packages 2 and 3: Statnett's Board of Directors made an investment decision in September. The licence decision for Ertsmyra-Lyse has been appealed and an appeal inspection was conducted with the Ministry of Petroleum and Energy (MPE) in December. A decision is expected to be made in the near future.
- *Ørskog - Sogndal:*
 - o More than 90 per cent of the project has now been completed. The section between Ålfoten and Ørsta was energized in December. This means that the entire power line between Ørskog and Ålfoten is now energized at 420 kV.
 - o On 17 December, Fjordane District Court suspended the suspensive effect for Sjørdalen nature reserve. This means that Statnett can start constructing the final 2.5 km section of the power line and mobilisation started in January 2016. Consequently, the project is likely to be completed by the end of 2016 as scheduled.
- *Ofoten-Balsfjord:* More than 50 per cent of the project has been completed. The section spanning the Rombaksfjord was completed in October.
- *Reactors for voltage reduction:* Reactor switches (composite) were put into operation in Flesaker in October and in Sylling in December.
- *International interconnectors:* In 2015, Statnett looked into the possibility of installing fibre optic cables in conjunction with installation of the power cables to Germany and the UK. The assessments were completed in December, and showed that this would not be possible without a significant risk of delays. In consultation with their partners, Statnett therefore decided not to go ahead with the plans for an integrated fibre solution. At the same time, Statnett

- invited interested parties to collaborate on the realisation of a stand-alone fibre project, initially to the UK.
- *Inner Oslofjord cable facility:* Construction started at the end of September/beginning of October.
 - *Wind power Central Norway (Namsos – Åfjord and Åfjord - Snilldal - Surna):* In November, the Statnett Board of Directors made an investment decision for the Snilldal-Surna section. A request for the power line contract for both sections was sent out the same month. The project is being constructed to facilitate wind power plans at Fosen and in the Snillfjord region. However, it will only be realised if an investment decision for 100 MW of wind power is made during the course of the first quarter of 2016.
 - *Reinvestment Sildvik:* The Statnett Board of Directors made an investment decision in December.
 - *Bjerkreim Substation:* NVE has granted Statnett a licence to construct the Bjerkreim substation. The licence grants permission to change and expand the substation. The Bjerkreim substation is necessary to connect planned wind power plants in the area to the transmission grid, and the decision to construct depends on development of about half of the planned wind power. Assuming that wind power will be developed, the substation will be completed in 2019, at the earliest. Statnett has entered into an agreement with Lyse Produksjon to implement Statnett's part of the development.
 - Statnett has submitted a concept and feasibility study for increased consumption at Fræna/Nyhamna to the Ministry of Petroleum and Energy (MPE). The recommended concept will ensure a more reliable power supply and provide dual supply (N-1) to the gas processing facility at Nyhamna in Romsdalen.

Financial performance

Operating revenues

The Group's operating revenues in the fourth quarter of 2015 totalled NOK 1 507 million (NOK 1 426 million). Operating revenues from regulated operations totalled NOK 1 453 million (NOK 1 412 million), while other operating revenues amounted to NOK 54 million (NOK 14 million). The increase was mainly due to higher congestion revenues due to significant price differences for short periods. Tariff revenues from fixed tariff components have increased as a consequence of

a change in tariff rates for consumption, whereas tariff revenues from energy components were somewhat reduced due to lower energy prices.

The Statnett Group's total operating revenues for 2015 amounted to NOK 5 906 million (NOK 5 563 million). Operating revenues from regulated operations totalled NOK 5 747 million (NOK 5 389 million), while other operating revenues amounted to NOK 159 million (NOK 174 million). The increase in operating revenues was mainly caused by the same reasons as for the fourth quarter, in addition to increased congestion revenues towards the Netherlands in the third quarter due to record-low prices in Southern Norway. Other operating revenues were lower due to profit from the sale of Husebyplatået recorded in 2014, as well as reduced revenues from external assignments.

Statnett's operating revenues mainly derive from grid operations, including system operations, regulated by the NVE, which stipulates a cap for Statnett's permitted revenue. Permitted revenue was NOK 6 236 million in 2015 (NOK 6 054 million). The increase was mainly due to an increase in the company's asset base, somewhat offset by lower interest rates as a basis for return on invested grid capital. Recorded revenues from regulated activities in Statnett consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and in relation to the Netherlands). If the recorded revenues from grid operations for one year diverge from the permitted revenue, so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs. In the fourth quarter of 2015, Statnett's lower revenue amounted to NOK 168 million (NOK 172 million). In 2015, lower revenue totalled NOK 489 million (NOK 665 million). At year-end 2015, accumulated higher revenue including interest was NOK 1 346 million.

Operating costs

The Group's operating costs totalled NOK 1 327 million in the fourth quarter of 2015 (NOK 1 226 million). In 2015, operating costs totalled NOK 4 192 million (NOK 4 185 million). Wage and staff costs were reduced due

to a one-off effect related to transition to a new pension plan, as well as lower system services costs and transmission loss. The reduced operating expenses are offset by an increase in depreciation.

System services costs amounted to NOK 97 million in the fourth quarter of 2015, down NOK 68 million compared with the corresponding period in 2014. System services costs in 2015 were NOK 451 million, down NOK 158 million compared with 2014. The reduction was mainly due to lower special adjustment costs due to e.g. fewer outages and lower energy prices, as well as lower transit costs due to, e.g., termination in 2014 of the agreement to purchase transmission services from the Swedish grid company Svenska kraftnät.

Transmission loss totalled NOK 127 million in the fourth quarter of 2015 (NOK 175 million). In 2015, transmission loss totalled NOK 466 million (NOK 586 million). The reduction was due to significantly lower energy prices, somewhat offset by higher loss volume.

In 2015, wage and staff costs totalled NOK 591 million (NOK 715 million). After adjusting for the effect of the change of pension scheme, wage and staff costs increased by NOK 152 million compared with 2014. The increase was driven by higher activity levels and increased workforce, as well as increased costs due to an altered scheme for differentiated employer's contribution.

Depreciation and impairment amounted to NOK 517 million in the fourth quarter of 2015 (NOK 346 million). For 2015, depreciation and impairment totalled NOK 1 626 million (NOK 1 150). The increase was due to an increased asset base, a change in the depreciation period for the back-up power plants, increased removal obligations, higher residual depreciation related to scrapping of fixed assets, as well as write-down of plants under construction mainly associated with the current consideration to establish an alternative route for grid reinforcements towards Stavanger.

Other operating costs totalled NOK 288 million during the fourth quarter of 2015 (NOK 337 million). In 2015, other operating costs totalled NOK 1 058 million,

down NOK 67 million compared with 2014, despite growth in the Group. The reduction is partly related to foreign exchange gains resulting from currency hedging of the NordLink project, which do not qualify for hedge accounting. Costs associated with equipment and materials were lower as some major operating projects and modification projects were postponed until 2016. In addition, the general cost level was also lower as a result of measures related to Statnett's efficiency improvement programme. This was somewhat offset by an increase in insurance costs and increased property tax, mainly explained by the increased asset base and introduction of property tax in several municipalities.

Operating profit

The Group's operating profit in the fourth quarter of 2015 was NOK 180 million (NOK 200 million). The operating profit totalled NOK 1 714 million in 2015 (NOK 1 378 million).

Financial items

Net financial items amounted to a loss of NOK 71 million in the fourth quarter of 2015 (loss of NOK 62 million). Net financial items for 2015 amounted to a loss of NOK 312 million (loss of NOK 269 million). The increase in financial costs was mainly due to realisation of Statnett's development projects, somewhat offset by lower interest rates.

Net profit

The Group's profit after tax in the fourth quarter of 2015 was NOK 158 million (NOK 106 million). In 2015, the Group's profit after tax totalled NOK 1 103 (NOK 829 million). The underlying profit after tax, corrected for changes in the higher revenue balance, amounted to NOK 1 427 in 2015 (NOK 1 284 million).

Cash flow and balance sheet

The Group's operating activities generated an accumulated net cash flow of NOK 2 260 million in 2015, compared with NOK 3 028 million in the corresponding period in 2014. The net cash flow from investment activities totalled NOK -5 777 million compared with NOK -5 997 million in the corresponding period in 2014. In total, loans were repaid by

NOK 1 142 million, and new loans of NOK 1 503 million were raised. At year-end 2015, the Group's liquid assets and market-based securities amounted to NOK 2 376 million (NOK 4 364 million).

At the end of 2015, the Group had total assets of NOK 45 547 million (NOK 41 107 million). Interest-bearing debt amounted to NOK 28 289 million (NOK 24 643 million), including security under CSA (Credit Support Annex) of NOK 3 328 million (NOK 1 860 million). The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 5 032 million. Interest-bearing debt, corrected for this, totalled NOK 23 257 million.

Subsidiaries and associated companies

Statnett SF wholly owns Statnett Transport AS. In 2015, operating revenues for Statnett Transport amounted to NOK 130 million (NOK 151 million) and the profit before tax was NOK 19 million (NOK 24 million).

Statnett SF wholly owns NordLink Norge AS. The company will be responsible for construction and operation of Statnett's share of the NordLink cable. NordLink Norge AS had no operating revenues in 2015. Profit before tax amounted to NOK 29 million, mainly related to foreign exchange gains resulting from currency hedging of the NordLink project, which do not qualify for hedge accounting. The company had no activity in 2014.

Statnett SF owns 50 per cent of the shares in Lyse Sentralnett and holds control over the company, which has been consolidated in the Statnett Group accounts. In 2015, operating revenues for Lyse Sentralnett AS amounted to NOK 33 million (NOK 37 million), but the company recorded a loss of NOK 101 million (profit of NOK 9 million). This is due to write-down of plants under construction.

On 28 August, Statnett SF established the company Elhub AS in which Statnett owns 100 percent of the shares. Elhub AS was operative from 1 October. The company will develop and operate a central data hub for measuring values and market processes in

the Norwegian electricity market (Elhub), which is a responsibility assigned to Statnett by the NVE through the Energy Settlement Licence. Elhub will be put in operation from the first quarter of 2017. The company recorded a Zero result.

Statnett SF has an ownership interest of 28.2 per cent in Nord Pool Spot AS. Statnett's share of the profit in Nord Pool AS contributed NOK 7 million (NOK 9 million) to the Statnett Group's profit in 2015.

Corporate social responsibility

Corporate social responsibility (CSR) in Statnett entails integration of social and environmental considerations in the company's social mission in a way that extends beyond the minimum requirements stipulated in laws and regulations. Statnett's social mandate is to maintain a reliable supply of electricity, contribute to value creation in society through an efficient and well-functioning power system and pave the way for better environmental solutions.

The work on corporate social responsibility is naturally linked to our development of the next generation power system and the group's social mandate. Statnett shall use the activities, expertise and resource base in the Group to perform its social mandate in such a way that it has positive ripple effects for society.

Statnett reports annually on CSR in accordance with the globally recognised reporting framework, Global Reporting Initiative (GRI). Statnett's GRI reporting complies with the requirements relating to CSR reporting stipulated in the Norwegian Accounting Act. Please see Statnett's 2014 annual report for more information about CSR.

Health, Safety and Environment (HSE)

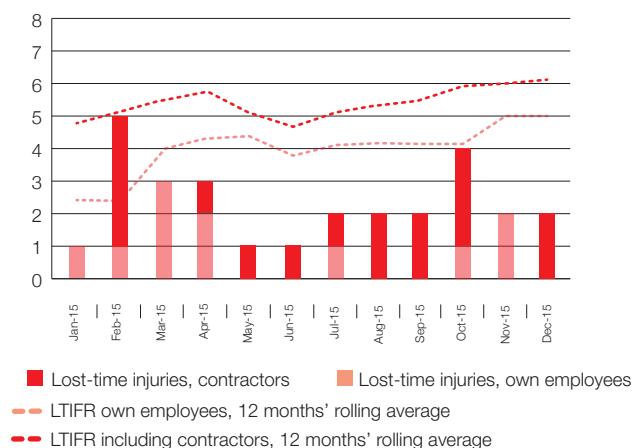
The Group's overall absence due to illness was 3.4 per cent in the fourth quarter of 2015, compared with 2.9 per cent in the corresponding period in 2014. Overall absence due to illness for Statnett was 3.3 per cent in 2015 and 3.1 per cent in 2014.

In total, Statnett reported eight lost-time injuries in the fourth quarter of 2015: three internal and five contractor/supplier lost-time injuries. Three lost-time injuries

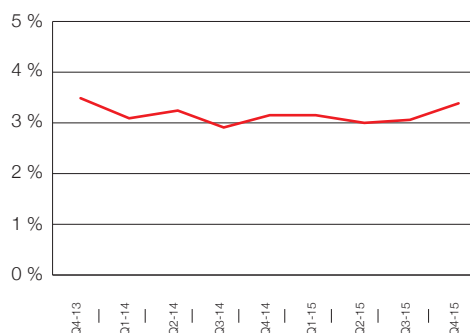
were reported in the corresponding period in 2014. None of the incidents in the fourth quarter of 2015 caused serious personal injury.

Over the last few years, the Group has improved its HSE performance and works systematically towards the objective of becoming the leading transmission system operator in Europe by the end of 2017. The objective has been specified to a Lost Time Injury Frequency Rate (LTIFR) of 2.0 and Total Recordable Incidents (TRI) of 3.9. In 2015, Statnett's LTIFR was 6.4 and the TRI 12.9 (including contractors/suppliers). This is an increase from 2014 (LTIFR of 4.4 and TRI of 6.8). Planned measures include increased focus on investigations and introduction of an internal colleague programme – "Sikker" ("Safe") – which will promote safe individual behaviour.

Lost Time Injury Frequency Rate (LTIFR) and lost-time injuries



Absence due to illness



The Sikker programme

In the fourth quarter, a pilot was launched of Statnett's internal safety programme SIKKER ("SAFE"). The purpose of the programme is to make decisions and perform actions that ensure an injury-free workday. The SIKKER programme provides a structured discussion and anchoring of personal obligations and expectations. The purpose is to achieve a common culture and understanding of objectives, responsibility and consequences with a focus on people's own behaviour, awareness and clear leadership.

Risk

Statnett practises unified risk management in a manner that reflects that the enterprise is responsible for critical infrastructure in a vulnerable society, and that Statnett is in a phase with a significant project volume as well as an increase in facilities. Statnett's risk management focuses on risk with potential consequences for HSE, security of supply, finance and reputation.

Statnett is exposed to HSE risks mainly in connection with implementation of development projects as well as operation and maintenance of existing facilities. Statnett's HSE risk assessment forms the basis for systematic improvement work within HSE with close follow-up of our suppliers. As presented in the 2015 Grid Development Plan, Statnett is about to enter a five-year period with a historically high investment level. This also means that the total project portfolio risk associated with HSE, finance and reputation will increase. Statnett has a wide range of procedures which cover how risky operations should be performed and these are revised regularly.

Security of supply is below the desired level and N-0 operation is necessary during some periods in some areas (no barrier against power outages in the main grid). However, there has been no recent significant changes in the risk.

The energy situation is normal in all areas and there is little risk of a strained power situation nationally and regionally in the present season. Reservoir water levels are above the median and the hydrological balance is

above normal. The risk of very strained power situations (SAKS) has been reduced in the medium term. Consequently, the use of SAKS measures will be discontinued after completion of the new power line between Ørskog and Sogndal.

The threat against critical ICT infrastructure in society is increasing. Statnett has several critical IT services. Loss of such services would make it challenging to handle system operations, for instance in the event of faults in grid facilities or major changes in production and consumption. Statnett has increased its efforts to improve information security, and cooperates closely with other stakeholders in the power industry to strengthen protection against cyber-attacks.

The enterprise has a credit facility totalling NOK 6 500 million to be able to fund at least 12 months' revolving operation and investments without incurring any new debt. Statnett has long-term credit ratings of A+ and A2 from Standard & Poor's and Moody's Investor Service, respectively.

As other enterprises, Statnett is exposed to the risk of fraud and misconduct. Misconduct exists when employees, employee representatives or business connections violate the trust that has been placed in them to achieve an unjustified advantage. Key measures to reduce the risk are Statnett's value base and code of conduct, structured processes including in connection with acquisitions and continuous management follow-up and internal control.

Statnett's operation has a natural exposure to reputation risk and is dependent on society's acceptance especially on areas relating to the extensive construction activity Statnett is currently conducting and the consequences on nature intervention, construction in densely populated areas, tariff effects and other circumstances. The Group's key measures to reduce the reputation risk is e.g. communication of construction plans, dialogue with customers, authorities and other interest groups, as well as transfer of knowledge. Statnett's customer survey in 2015 shows a positive development in this area.

Outlook

Statnett's 2015 Grid Development Plan, launched in October, reflects Norwegian society's need for a stronger grid which ensures a reliable power supply and facilitates renewables projects and industrial and commercial development throughout the country. This means that Statnett is in a five-year period with an historically high investment level. The development of new grid facilities will contribute to increased capacity in the power system, but it also results in delays of important reinvestments in existing plants. Statnett emphasises maintaining an overall project and reinvestment plan that balances the efficient development of the main grid in Norway with maintaining a reliable security of supply.

Together with its German and British partners, Statnett has started the construction of the interconnectors to Germany and the UK. Both projects have high priority and are important for the development and integration of the Northern European power system. The projects will help ensure improved security of supply in Norway, Germany and the UK, and balance variations in German and British renewable power production throughout the day. Power exchange capacity generates value creation in Norway. Moreover, the projects will support the ambitions to increase generation of renewable energy throughout the region and help meet the EU's climate and energy targets.

The grid development measures with the highest priority have a positive effect on security of supply. However, the large project scope also entails major strain on a generally highly utilised and ageing power grid. Consequently, a focus on preparedness will continue to be important in the years to come.

Statnett continues its collaboration with the wind power operators in Central Norway to realise the projects at Fosen and in Snillfjord.

The Ministry of Petroleum and Energy (MPE) has submitted proposed amendments to the Energy Act for consultation, as a result of the third EU energy market package. The proposal entails substantial growth in the tasks assigned to Statnett if Statnett

assumes ownership of the remaining 15 per cent of the main grid. This will lead to an increased need for investments and staff in Statnett, but will also allow for an overall more efficient organisation of main grid operations and development in the long term.

Statnett is involved in cooperation both at a European and Nordic level. This work is important, as key framework conditions stipulated by the EU also are relevant for Norway through the EEA Agreement. The establishment of a common European power market makes it necessary to harmonise the framework for the electricity market, as well as for system and grid operations. As the Norwegian and Nordic power systems differ from the European system, it is important that the framework conditions are formulated to safeguard Norwegian and Nordic security of supply, promote cooperation and structure developments at a Nordic level, and ensure value creation from Norwegian hydropower.

Major investments will be made in the main grid over the coming period, which will affect tariffs. The measures are based on a sound socio-economic foundation and Statnett strives to ensure transparent, cost-efficient and grid-based tariffs for all customer groups. Statnett's current tariff strategy applies for the period 2014-2018.

Statnett is focusing on maintaining its position as one of the most cost-efficient TSOs in Europe. The Group aims to increase efficiency by 15 per cent by the end of 2018, based on the 2013 cost level. The results so far have been good. An important objective is to realise the potential for economies of scale inherent in the combination of existing facilities, new commissioned facilities and acquisition of the remaining part of the main grid as a consequence of the EU's third energy market package.

Oslo, 17 February 2016

The Board of Directors, Statnett SF

Statement of comprehensive income

Statnett Group

| Amounts in NOK million | Note | Fourth quarter | | Year | |
|--|------|----------------|--------------|--------------|--------------|
| | | 2015 | 2014 | 2015 | 2014 |
| Operating revenue | | | | | |
| Operating revenue regulated operations | 2 | 1 453 | 1 412 | 5 747 | 5 389 |
| Other operating revenue | | 54 | 14 | 159 | 174 |
| Total operating revenue | | 1 507 | 1 426 | 5 906 | 5 563 |
| Operating costs | | | | | |
| System services | | 97 | 165 | 451 | 609 |
| Transmission losses | | 127 | 175 | 466 | 586 |
| Salaries and personnel costs | 5 | 298 | 203 | 591 | 715 |
| Depreciation, amortisation and impairment | | 517 | 346 | 1 626 | 1 150 |
| Other operating costs | | 288 | 337 | 1 058 | 1 125 |
| Total operating costs | | 1 327 | 1 226 | 4 192 | 4 185 |
| Operating profit | | 180 | 200 | 1 714 | 1 378 |
| Income from associate | | 5 | -2 | 8 | 11 |
| Financial income | | 53 | 116 | 501 | 202 |
| Financial costs | | 124 | 178 | 813 | 471 |
| Profit before tax | | 114 | 136 | 1 410 | 1 120 |
| Tax | | -44 | 30 | 307 | 291 |
| Profit for the period | | 158 | 106 | 1 103 | 829 |
| Other comprehensive income | | | | | |
| Changes in fair value, held-for-sale investments | | 1 | 2 | 1 | 2 |
| Changes in fair value for cash flow hedges | | 5 | -77 | 20 | -158 |
| Tax effect | | -6 | 21 | -10 | 43 |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i> | | - | -54 | 11 | -113 |
| Remeasurements of pension liabilities | 5 | 91 | -120 | 253 | -407 |
| Tax effect | | -27 | 33 | -70 | 110 |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i> | | 64 | -87 | 183 | -297 |
| Total other comprehensive income | | 64 | -141 | 194 | -410 |
| Total comprehensive income | | 222 | -35 | 1 297 | 419 |

Balance sheet

Statnett Group

| (Amounts in NOK million) | Note | 31.12.15 | 30.09.15 | 31.12.14 |
|---|------|---------------|---------------|---------------|
| ASSETS | | | | |
| Fixed assets | | | | |
| Goodwill | | 53 | 53 | 53 |
| Other intangible fixed assets | | 283 | 185 | 227 |
| Tangible fixed assets | | 30 215 | 27 062 | 27 515 |
| Plants under construction | 4 | 6 553 | 8 650 | 5 047 |
| Investment in associates | | 90 | 85 | 89 |
| Other financial fixed assets | 3 | 5 213 | 4 979 | 3 340 |
| Total fixed assets | | 42 407 | 41 014 | 36 271 |
| Current assets | | | | |
| Trade accounts and other short-term receivables | 3 | 764 | 901 | 472 |
| Market-based securities | 3 | 680 | 682 | 1 345 |
| Liquid assets | 3 | 1 696 | 2 405 | 3 019 |
| Total current assets | | 3 140 | 3 988 | 4 836 |
| Total assets | | 45 547 | 45 002 | 41 107 |
| EQUITY AND LIABILITIES | | | | |
| Equity | | | | |
| Contributed capital | | 5 950 | 5 950 | 5 950 |
| Other equity accrued | | 7 614 | 7 335 | 6 601 |
| Non-controlling interest | | 41 | 78 | 78 |
| Total equity | | 13 605 | 13 383 | 12 629 |
| Long-term liabilities | | | | |
| Deferred tax | | 1 055 | 974 | 682 |
| Pension liabilities | 5 | 249 | 327 | 869 |
| Other liabilities | | 665 | 639 | 485 |
| Long-term interest-bearing debt | 3 | 24 266 | 24 651 | 22 138 |
| Total long-term liabilities | | 26 235 | 26 591 | 24 174 |
| Current liabilities | | | | |
| Short-term interest-bearing debt | 3 | 4 023 | 3 280 | 2 505 |
| Trade account payable and other short-term debt | 3 | 1 673 | 1 642 | 1 763 |
| Tax payable | | 11 | 106 | 36 |
| Total current liabilities | | 5 707 | 5 028 | 4 304 |
| Total equity and liabilities | | 45 547 | 45 002 | 41 107 |

Statement of changes in equity

Statnett Group

| <i>(Amounts in NOK million)</i> | Total equity | Non-controlling interest | Total equity allocated to owner of Statnett SF | Other equity accrued | Other items | Decided, non-registered contributed capital | Contributed capital |
|---------------------------------|---------------|--------------------------|--|----------------------|-------------|---|---------------------|
| Equity as at 1.1.2014 | 12 135 | - | 12 135 | 6 242 | -57 | 3 250 | 2 700 |
| Profit/loss for the year | 829 | 3 | 826 | 826 | - | - | - |
| Other comprehensive income | -410 | - | -410 | -297 | -113 | - | - |
| Paid contributed capital | - | - | - | - | - | -3 250 | 3 250 |
| Acquisition subsidiary | 75 | 75 | - | - | - | - | - |
| Equity as at 31.12.2014 | 12 629 | 78 | 12 551 | 6 771 | -170 | - | 5 950 |
| Equity as at 1.1.2015 | 12 629 | 78 | 12 551 | 6 771 | -170 | - | 5 950 |
| Profit/loss for the year | 1 103 | -37 | 1 140 | 1 140 | - | - | - |
| Other comprehensive income | 194 | - | 194 | 183 | 11 | - | - |
| Dividends declared | -321 | - | -321 | -321 | - | - | - |
| Equity as at 31.12.2015 | 13 605 | 41 | 13 564 | 7 773 | -159 | - | 5 950 |

Cash flow statement

Statnett Group

| <i>(Amount in NOK million)</i> | Year | |
|--|---------------|---------------|
| | 2015 | 2014 |
| Cash flow from operating activities | | |
| Profit before tax | 1 410 | 1 120 |
| Loss/gain(-) on sale of fixed assets | -18 | -59 |
| Depreciation, amortisation and impairment | 1 626 | 1 150 |
| Taxes paid | -37 | - |
| Interest recognised in the income statement | 327 | 270 |
| Interest received | 40 | 55 |
| Interest paid, excl. construction interest | -366 | -301 |
| Changes in trade accounts receivable/payable | -121 | 273 |
| Changes in other accruals | -593 | 531 |
| Result from companies using equity method | -8 | -11 |
| Net cash flow from operating activities | 2 260 | 3 028 |
| Cash flow from investing activities | | |
| Proceeds from sale of tangible fixed assets | 46 | 58 |
| Purchase of tangible fixed assets, other intangible fixed assets and plants under construction | -5 676 | -5 809 |
| Construction interest paid | -144 | -196 |
| Purchase of subsidiary, net of cash acquired | - | -40 |
| Change in long term loan receivables | -10 | -14 |
| Dividend received | 7 | 4 |
| Net cash flow from investing activities | -5 777 | -5 997 |
| Cash flow from financing activities | | |
| Proceeds from new interest-bearing borrowings | 1 503 | 3 048 |
| Repayment of interest-bearing debt | -1 142 | -2 287 |
| Changes in collateral under CSA (Credit Support Annex) agreements | 1 469 | 1 687 |
| Proceeds from sale of market-based securities | 1 111 | 476 |
| Purchase of market-based securities | -426 | -1 156 |
| Dividend paid | -321 | - |
| Proceeds from new equity | - | 3 250 |
| Net cash-flow from financing activities | 2 194 | 5 018 |
| Net cash flow for the period | -1 323 | 2 049 |
| Cash and cash equivalents at the start of the period | 3 019 | 970 |
| Cash and cash equivalents at the close of the period | 1 696 | 3 019 |

Restricted bank deposit amounting to NOK 86 million is included in cash and cash equivalents as at 31 December, 2015.

Unused credit facilities of NOK 6 500 million are not included in cash and cash equivalents.

Note 1 - Accounting policies

The interim report has been submitted in accordance with International Standards for Financial Reporting (IFRS) and interpretations stipulated by the International Accounting Standards Board (IASB) including IAS 34. The interim accounts do not contain all the additional information required in the annual accounts, and should therefore be read in the context of the 2014 annual accounts. The interim accounts is unaudited.

The accounting principles applied for the interim accounts are consistent with the accounting principles that were applied for the 2014 annual accounts with the following exceptions:

As of 1 January, 2015 the Group implemented IFRIC 21 which is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the event that triggers the payment of the levy. The obligating event will occur when the municipality issues the property tax to the Group entity. This implies that the Group recognizes the property tax when the invoice for the next term is received from the municipalities.

Note 2 – Operating revenues regulated operations

Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). Statnett's grid operations are regulated by the NVE, which stipulates a cap for Statnett's revenues (permitted revenue). If the total revenues from grid operations for one year diverge from the permitted revenue, so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs.

| <i>(Amounts in NOK million)</i> | Year | |
|--|---------------|---------------|
| | 2015 | 2014 |
| Statnett Group | | |
| Tariff revenues | 4 875 | 4 741 |
| Congestion revenues | 1 067 | 807 |
| Income from other owners in shared grids | -195 | -159 |
| Total operating revenues regulated activities | 5 747 | 5 389 |
| Total permitted revenue | 6 236 | 6 054 |
| This year's higher/lower revenue (-/+), excl. interest | 489 | 665 |
| This year's provision for interest higher/lower revenue (-/+) | -25 | -42 |
| Changed balance for higher/lower revenue, change previous year (-/+) | -20 | - |
| Changed balance for higher/lower revenue (-/+) | 444 | 623 |
| Balance higher/lower revenue (-/+), incl. interest as at 1 Jan. | -1 790 | -2 413 |
| Changed balance for higher/lower revenue (-/+), incl. interest | 444 | 623 |
| Balance higher/lower revenue (-/+), incl. interest year to date | -1 346 | -1 790 |

Impact of grid outages on profit

As the transmission system operator, Statnett is in dialogue with the NVE regarding how outages in Nyhamna in the event of system protection activation in the period leading up to 2012 should be handled with respect to the KILE scheme and system operation costs. The financial consequences for Statnett of such grid interruptions/ outages have therefore not been clarified. On 1. February 2016, NVE provided their opinion to the Oil and Energy department which will conclude on the matter. For outages on the Viklandet–Fræna power line after 2012, a provision has been made in the accounts following the same principle as for previous incidents.

Note 3 - Overview of financial instruments

This note gives an overview of book value and fair value of financial instruments, including accounting treatment. The table also shows at which level in the valuation hierarchy the different measurement methods for the Group's financial instruments measured at fair value are classified, compared to how objective the measurement method is.

As at 31 December 2015

| Group (Amounts in NOK million) | Category | Measurement level | Book value | Fair value |
|--|--------------------------------|-------------------|---------------|---------------|
| Assets | | | | |
| Fixed assets | | | | |
| Long-term receivables | Loans and receivables | | 44 | 44 |
| Subord. capital in Statnett SF's pension fund | Fair value through profit/loss | 3 | 75 | 75 |
| Financial assets available for sale | Available for sale | 3 | 10 | 10 |
| Derivatives | Fair value through profit/loss | 2 | 5 084 | 5 084 |
| Total financial fixed assets | | | 5 213 | 5 213 |
| Current assets | | | | |
| Trade accounts receivable | Loans and receivables | | 166 | 166 |
| Derivatives | Fair value through profit/loss | 2 | 119 | 119 |
| Other short-term receivables | Loans and receivables | | 479 | 479 |
| Total trade accounts and other short-term receivables | | | 764 | 764 |
| Investment in market-based securities | Fair value through profit/loss | 1 | 680 | 680 |
| Liquid assets | Fair value through profit/loss | | 1 696 | 1 696 |
| Liabilities | | | | |
| Long-term interest-bearing debt | Other liabilities | 1 | 24 045 | 24 271 |
| Derivatives | Fair value through profit/loss | 2 | 221 | 221 |
| Total long-term interest-bearing debt | | | 24 266 | 24 492 |
| Short-term interest-bearing debt | Other liabilities | 1 | 4 019 | 4 032 |
| Derivatives | Fair value through profit/loss | 2 | 4 | 4 |
| Total short-term interest-bearing debt | | | 4 023 | 4 036 |
| Trade accounts payable and other short-term debt | Other liabilities | | 1 673 | 1 673 |
| Total Level 1* | | | 680 | 680 |
| Total Level 2** | | | -23 086 | -23 325 |
| Total Level 3** | | | 85 | 85 |

* Quoted prices for active markets for identical financial instruments. No adjustments are made regarding these prices.

** Measured using other observable input compared to level 1, either directly (prices) or indirectly (derived from prices)

*** Measured using input not based on observable market data.

During the period there has not been any transactions between the measurement levels.

Fair value measurements

The fair value of forward exchange contracts is determined by applying the forward exchange rate on the balance sheet date.

The fair value of currency swaps and interest rate swap is calculated as the present value of future cash flows.

Fair value is mainly confirmed by the financial institution Statnett has contracts with.

The fair value of interest-bearing liabilities accounted for at amortised cost has been calculated:

- using quoted market prices,
- using interest rate terms for liabilities with a corresponding maturity and credit risk, or
- using the present value of estimated cash flows discounted by the interest rate that applies to corresponding liabilities and assets on the balance sheet date.

In the case of financial instruments such as financial assets available for sale, trade account receivables and other short-term receivables, liquid assets, trade accounts payable and other current liabilities, it is assumed that the book value is the best estimate for fair value, due to the short-term nature of the items.

CSA agreements

Statnett has entered into CSA (Credit Support Annex) agreements with major counterparts. This entails that the market value of derivatives entered into between Statnett and a counterparty is settled on a weekly basis, and that monetary security is received or given for any outstanding amounts.

Reconciliation of level 3 in fair value measurements

| | Group | |
|-------------------------------------|--------------|-------------|
| <i>(Amounts in NOK million)</i> | 2015 | 2014 |
| Opening balance at 1. January | 87 | 84 |
| Capital reduction | -2 | - |
| Net unrealised gain/loss in periode | - | 3 |
| Total fair value level 3 | 85 | 87 |

Note 4 - Plants under construction

| | Group | |
|---|--------------|--------------|
| <i>(Amounts in NOK million)</i> | 2015 | 2014 |
| Acquisition cost at 1. January | 5 166 | 6 083 |
| Additions | 5 676 | 5 843 |
| Capitalised construction interest | 144 | 195 |
| Transferred to tangible and other intangible fixed assets | -4 152 | -6 954 |
| Write-offs | -110 | - |
| Acquisition cost at 31 December | 6 724 | 5 167 |
| Effect hedge accounting | -171 | -120 |
| Plants under construction at 31 December | 6 553 | 5 047 |

Contractual obligations as at 31 December 2015

Contractual obligations as at 31 December 2015 total NOK 14 841 million.

The selection only includes investment projects where future contractual obligations exceed NOK 50 million.

In 2014, Statnett entered into an agreement with Lofotkraft AS. The agreement stipulates that Lofotkraft has the right, but no obligation to, sell or grid facilities to Statnett, and Statnett has the obligation, but no right, to purchase the grid facility from Lofotkraft from the time the grid facility in question has been commissioned and connected. The purchase price is estimated at NOK 250 million, and completion is scheduled for October 2016.

Note 5 - Pensions

Statnett has conducted calculations of the company's pension liabilities based on the Norwegian Accounting Standards Board's updated assumptions as of 31 December 2015.

The pension liability decreased by NOK 253 million as a result of changes in experience adjustment and actuarial assumptions as of the third quarter. Remeasurements as a result of the update have been recognised in other comprehensive income.

The following assumptions have been applied in the quarterly accounts:

| Financial/actuarial assumptions | 31.12.15 | 31.12.14 |
|---|-----------------|-----------------|
| Discount rate corporate covered bonds (OMF) | 2,75 % | 2,30 % |
| Expected return on pension assets | 2,75 % | 2,30 % |
| Expected salaries adjustments | 2,25 % | 2,75 % |
| Expected pension adjustments | 1,50 % | 1,75 % |
| Expected adjustment of basic amount (G) | 2,25 % | 2,50 % |
| Expected mortality table adjustment | K2013FT | K2013BE |

Remeasurements

(Amounts in NOK million)

| | | |
|--|-------------|------------|
| Discount rate | -150 | 1 214 |
| Rate of return assets | 2 | -60 |
| Salaries growth | -56 | -308 |
| Pension adjustment | -63 | -450 |
| Mortality table (K2013) | 118 | - |
| Effect of experience adjustment | -104 | 11 |
| Total changes in remeasurements | -253 | 407 |

In June 2015, Statnett decided to change the Group's pension plan from a defined benefit plan to a defined contribution plan. The transitioning to the defined contribution plan takes place from January 1, 2016. The effect of the transition was incorporated in the reported pension figures for the second quarter with some minor adjustments in the fourth quarter. Total cost-reduction due to the change amounts to NOK 284 million. Further information is available in note 5 to the second quarter report.

Statnett

Statnett SF

Mail address:

PO Box 4904 Nydalen
0423 Oslo

Visiting address:

Nydalen Allé 33
0484 Oslo

Tel: +47 23 90 30 00

Fax: +47 23 90 30 01

E-mail: firmapost@statnett.no

statnett.no